

CHAPTER 14: POOL AND LOAN PACKAGE ADMINISTRATION — GENERAL

14-1: OVERVIEW OF CHAPTER

This chapter describes the responsibilities of an issuer in servicing mortgage pools and loan packages and the related securities. The chapter describes the servicing standards that govern the discharge of these responsibilities. Summaries are included of certain servicing matters addressed more fully in Chapters 15 through 20, including payments to security holders, custodial accounts, pool, loan package, and loan accounting and reporting, mortgage delinquency and default, reporting remaining principal balances, and maturity or termination of pools.

14-2: SERVICING STANDARDS

An issuer must service pooled mortgages in accordance with (A) any applicable FHA, VA, RHS, or PIH regulation or requirement, (B) to the extent not inconsistent with (A), this Guide, as amended or supplemented from time to time, and any applicable statute implemented, or instruction issued, by Ginnie Mae, and (C) to the extent not inconsistent with (A) or (B), practices generally accepted in the mortgage lending and servicing industries. Requirements with respect to pool or loan package administration apply to the issuer pursuant to the applicable Guaranty Agreement (see Appendices III-15 through III-20 and III-23 through III-26), which, among other things, requires compliance with this Guide. The issuer must be thoroughly familiar with the requirements of the applicable Guaranty Agreement.

No issuer or subcontract servicer may, without the written permission of Ginnie Mae, remove a loan, whether pursuant to a substitution or otherwise, from a pool or loan package or reduce a balance on a pooled loan for any reason not specifically authorized in the applicable Guaranty Agreement or in this Guide.

CHAPTER 14: POOL AND LOAN PACKAGE ADMINISTRATION — GENERAL

14-3: RECORD KEEPING

The issuer must retain records for each pool or loan package of mortgages for the life of the pool or loan package. These records must accurately reflect the application of each monthly installment, the amounts made available to the CPTA for use in making payments to the security holders, and any unrecovered advances. The issuer must maintain for the life of a mortgage records of all disbursements for taxes, insurance premiums, and all other expenses. The issuer must also retain all canceled checks and bank statements pertaining to the mortgages in accordance with FHA, VA, RHS, or PIH requirements and practices generally accepted in the mortgage lending and servicing industries. These records may be in the form of microfilm or other acceptable documentation. Failure to maintain all required records will constitute an act of mismanagement and grounds for Ginnie Mae to declare an issuer in default.

Issuers that acquire pools or loan packages will be responsible for the pool or loan package records, as noted above, for the period from the issue date of the pool or loan package to the pool or loan package transfer date and thereafter.

14-4: PAYMENTS TO SECURITY HOLDERS

(A) Full and Timely Payment

The issuer is obligated under the Ginnie Mae I MBS Program to make, and under the Ginnie Mae II MBS Program to make available funds adequate to enable the CPTA to make, timely monthly payments of principal and interest to the security holders of record as prescribed in the securities, in the applicable Guaranty Agreement, and in this Guide. The issuer must make these funds available without regard to whether the issuer will be able to recover, from liquidation proceeds, insurance proceeds, or otherwise, amounts paid or made available to the CPTA for payment to security holders. Payments to security holders are discussed more fully in Chapter 15.

(B) Elements of Monthly Payments

The monthly payment to security holders consists of three elements: interest, scheduled principal, and unscheduled recovery of principal, each computed as described in Section 15-4.

CHAPTER 14: POOL AND LOAN PACKAGE ADMINISTRATION — GENERAL

Section 14-4 (continued)

(C) RPBs and Determination of Principal Payments

Each month the issuer must pay to security holders (under the Ginnie Mae I MBS Program) or make available to the CPTA for payment to security holders (under the Ginnie Mae II MBS Program) principal equal to the difference between the RPB reported in the prior month and the RPB reported in the month of payment. The reporting of RPBs and their use in determining principal payments are discussed in Chapter 19 and Section 17-4(D), respectively.

(D) Advances of Principal and Interest

If necessary to cover shortfalls in collections, the issuer must advance its own funds in order to ensure that timely payment of all amounts due security holders is made. Advances are discussed more fully in Sections 15-2(E) and 15-3(C).

(E) Ginnie Mae I MBS Program: Notification of Method of Electronic Payment

Under the Ginnie Mae I MBS Program, for all securities registered in the name of the designated nominee for the depository, with an issue date on or after October 1, 1998, issuers are required to make payments by electronic means. To facilitate this requirement, issuers must notify the depository in writing whether they will make the electronic payment by ACH or Fed wire. This notification must be provided to the depository no later than 30 days prior to the date that the first electronic payment is due. Instructions for providing the notification are in Appendix VI-14.

14-5: CUSTODIAL ACCOUNTS

Issuers must segregate the cash flow from the pooled mortgages by maintaining custodial accounts for principal and interest, taxes and insurance, and other escrows. In addition, each Ginnie Mae II MBS Program issuer must maintain a central P&I custodial account from which the CPTA may transfer funds by ACH transaction for the payment of security holders and the Ginnie Mae guaranty fee.

The custodial accounts must satisfy all of the requirements of the related Master Agreement for Servicer's Principal and Interest Custodial Account, form HUD 11709 (Appendix III-2) and Master Agreement for Servicer's Escrow Custodial Account form HUD 11720 (Appendix III-3), and the applicable Guaranty Agreement, including the requirement that the accounts be insured by the FDIC or the NCUA. Custodial account requirements are discussed more fully in Chapter 16.

CHAPTER 14: POOL AND LOAN PACKAGE ADMINISTRATION — GENERAL

Section 14-5 (continued)

If necessary to cover shortfalls in collections from mortgagors, the issuer must advance its own funds to make tax and insurance payments when due. This advance obligation is discussed in Section 5-2(J) and in Section 16-5(A).

14-6: POOL, LOAN PACKAGE, AND LOAN ACCOUNTING

(A) Accounting Requirements

All issuers must comply with the pool, loan package, and loan accounting requirements, which are discussed more fully in Chapter 17.

(B) Monthly Pool and Loan Package Reporting Requirements

Each issuer must report by the 10th day of each month, for each of its pools and loan packages regardless of type, the pool or loan package accounting data called for on the Issuer's Monthly Accounting Report, form HUD 11710-A (Appendix VI-4) and the Liquidation Schedule, form HUD 11710-E (Appendix VI-4). These reports, the methods for submitting them, and the process for correcting them are discussed more fully in Chapter 17.

(C) Quarterly Reporting Requirements

Each issuer must submit loan level data on a quarterly basis every January 15, April 15, July 15, and October 15 to reflect the data for pools and loan packages issued through December 1, March 1, June 1, and September 1, respectively. The loan level reporting data must reconcile with the monthly accounting report submitted on the Issuer's Monthly Accounting Report, form HUD 11710-A (Appendix VI-4) for the applicable reporting month. This is discussed more fully in Chapter 17.

14-7: REPORTING REMAINING PRINCIPAL BALANCES

The issuer's obligation to report RPBs to Ginnie Mae monthly, the use made of the RPBs, and the methods for reporting and correcting RPBs are discussed in Chapter 19.

CHAPTER 14: POOL AND LOAN PACKAGE ADMINISTRATION — GENERAL

14-8: DELINQUENT AND DEFECTIVE LOANS

(A) Servicing and Repurchase of Delinquent Loans

The issuer must service delinquent mortgages and manage foreclosure or assignment procedures in accordance with the standards described in Section 14-2 and in Chapter 18.

The issuer's right to purchase certain delinquent loans is described in Section 18-3(B).

(B) Acceptable Delinquency Rates

Issuers must maintain delinquency rates on outstanding pools below the threshold levels described in Chapter 18.

An event of delinquency is determined by the terms established by the agency that insures or guarantees the mortgage.

(C) Failure to Maintain Acceptable Delinquency Rates

If an issuer fails to maintain delinquency rates on outstanding pools or loan packages below the applicable threshold levels, Ginnie Mae may impose on the issuer sanctions that are described in Chapter 18.

(D) Defective Loans

A defective mortgage is a mortgage:

- (1) that cannot be insured or guaranteed by an agency of the Federal Government;
- (2) that has been refused by the insuring or guaranteeing agency;
- (3) for which federal agency insurance or guaranty has been withdrawn; or
- (4) that does not comply with the terms of the related securities.

Except as provided in Section 9-2(E), delinquency is not considered a defect.

CHAPTER 14: POOL AND LOAN PACKAGE ADMINISTRATION — GENERAL

Section 14-8(D) (continued)

If a single family mortgage or manufactured home loan is found to be defective within four months after the issue date of the securities, the issuer must cure the defect or replace the mortgage or loan in the pool or loan package with a substitute mortgage or loan. After the four-month period, replacement is not allowed, and the issuer must either cure the defect or repurchase the mortgage or loan out of the pool or loan package in an amount equal to the RPB of the loan less the principal payments advanced by the issuer on the loan.

A substitute mortgage or loan must satisfy the following requirements:

(5) Pool eligibility requirements:

Except as set forth below, it must satisfy all of the eligibility requirements that it would have had to meet had it been properly included in the related pool initially.

(6) Maturity date:

Its maturity date may not be later than the maturity date of the related Ginnie Mae MBS.

CHAPTER 14: POOL AND LOAN PACKAGE ADMINISTRATION — GENERAL

Section 14-8(D) (continued)

(7) Remaining principal balance:

At the time of replacement, its remaining principal balance may not be greater than the remaining principal balance of the mortgage to be replaced. If its remaining principal balance is less than the remaining principal balance of the mortgage or loan to be replaced, the issuer must, as applicable, (a) pass the difference through to security holders under the Ginnie Mae I MBS Program no later than the 15th day of the month (or, if payment is made by electronic transfer and the 15th day of the month is not a business day, on the first business day following the 15th of the month) following the reporting month in which the mortgage or loan is replaced or (2) include the difference in the payment made available to the CPTA for pass through to security holders under the Ginnie Mae II MBS Program on the 20th day of the month following the reporting month in which the mortgage or loan is replaced.

If a project or construction loan is found to be defective, regardless, of the time of discovery, the issuer must cure the defect or repurchase the loan.

The issuer must notify Ginnie Mae's Office of Customer Service or Office of Multifamily Programs, as appropriate (see Addresses), of any mortgage found to be defective and must receive Ginnie Mae's written approval prior to any substitution for or repurchase of a loan from a pool. A request to repurchase a defective loan must be submitted in accordance with the Form Letter for Loan Repurchase (Appendix VI-2).

Such cure, substitution or repurchase must occur either 30 days after discovery or on or before the final certification due date, as set forth in this Guide, whichever is earlier.

14-9: OTHER POOL AND LOAN PACKAGE ADMINISTRATION REQUIREMENTS

In addition to the requirements described above, the issuer agrees to perform and is responsible for the following functions.

CHAPTER 14: POOL AND LOAN PACKAGE ADMINISTRATION — GENERAL

Section 14-9 (continued)

(A) Pool and Loan Package Documents

The issuer must deliver mortgage loan and pool and loan package documents to the document custodian and safeguard pool and loan package documents during their interim release by the document custodian for necessary loan administration actions. (See Chapter 13)

(B) Fire and Extended Insurance Coverage; Mortgage Impairment Insurance

- (1) For each pooled mortgage, the issuer must have in its possession a valid, standard policy of insurance for fire and extended coverage or comparable insurance coverage. Such policy must be in an amount equal to the RPB of the pooled mortgage or the value of the improvements less the value of the land. The policy must include a loss-payable endorsement designating the issuer as payee. The issuer must maintain the insurance in full force and effect to the extent that the insurance is available.

For a manufactured home loan, the policy must be in an amount equal to the RPB of the loan or the value of the manufactured home, whichever is less. Each insurance policy must include a standard mortgagee clause insuring the interest of Ginnie Mae as well as that of the issuer and the homeowner.

For a multifamily loan, the policy must be in an amount equal to the RPB of the mortgage or the amount required by FHA, whichever is less.

The issuer must maintain evidence of insurance by retaining either the original policies or the information relating to the insurance policies in a medium that is accessible to Ginnie Mae. If the issuer does not retain the original policies as evidence of insurance it must carry mortgage impairment or mortgage interest insurance.

- (2) If required pursuant to paragraph (1), the issuer must maintain mortgage impairment or mortgage interest insurance that satisfies the following requirements:
 - (a) be underwritten by an insurer currently rated B+ or better in Best's Insurance Reports (policies issued by Lloyd's of London are also acceptable) and licensed or otherwise authorized by law to conduct business in the jurisdictions where the properties are located;

CHAPTER 14: POOL AND LOAN PACKAGE ADMINISTRATION — GENERAL

Section 14-9(B)(2) **(continued)**

- (b) provide coverage for the issuer and/or Ginnie Mae;
- (c) provide coverage in scope and amounts at least equal to those required under Chapter 2-7;
- (d) provide for at least 30 days' written notice to the issuer and, if applicable, to Ginnie Mae before canceling or terminating the coverage; and
- (e) be approved by any regulatory authority to which the issuer is subject, if such approval is required.

In addition to all other remedies of Ginnie Mae, the issuer will indemnify Ginnie Mae for any loss Ginnie Mae sustains due to the issuer's failure to verify that the required insurance is in force on the pooled loans. The issuer's obligation will not be limited to the amount of coverage in force under a mortgage impairment or mortgagee interest policy.

(C) IRS Reporting

Each issuer is fully responsible for providing all Internal Revenue Service (IRS) reports to investors and to the IRS. To this end, issuers must be familiar with and follow IRS fixed investment trust rules and the applicable rules regarding reporting of interest paid to security holders.

14-10: CONFLICT OF INTEREST

Privileged information obtained by issuers about borrowers and mortgaged properties may not be used by issuers in any way that could be viewed as a conflict of interest. This information may be used only as permitted under applicable state and federal law, including that regarding disclosure of credit information. For example, it is Ginnie Mae's policy that an issuer may not trade in securities for which the issuer also is servicing the underlying mortgage pool or loan package based on delinquency, default, or other inside information obtained by the issuer, because this could create a conflict of interest with the existing security holders and Ginnie Mae.

CHAPTER 14: POOL AND LOAN PACKAGE ADMINISTRATION — GENERAL

14-11: GINNIE MAE AUDIT

The issuer agrees that at any reasonable time, as requested by Ginnie Mae, Ginnie Mae or its designated agent may examine and audit the mortgages held by the issuer, and all books, records, or information of the issuer or relating to an issuer's pools or loan packages or its participation in the Ginnie Mae MBS Program, or bearing on the issuer's compliance with the requirements of the MBS Program, its management or its financial structure, including but not limited to, all mortgage documents, mortgage servicing records, mortgage records, and banking records for funds directly or indirectly related to the mortgages or the securities. Ginnie Mae also shall have the right to perform such audits on any of the issuer's mortgage servicers, trustees, agents or other representatives of issuer.

As a service to Ginnie Mae, various contractors conduct financial and administrative reviews of Ginnie Mae issuers to assure compliance with Ginnie Mae requirements. Issuers must afford all contractors and their staffs full cooperation in their conduct of these functions.

14-12: ACCESS TO RECORDS

For the purpose of audit, examination, monitoring, and evaluation of an issuer's compliance with the Ginnie Mae MBS Program, each issuer must make available for inspection by Ginnie Mae or its agents, upon request, mortgage files and related documentation and other information pertinent to its operations under the Ginnie Mae MBS program. Each issuer must ensure that any party holding mortgage files or related documentation, including a subcontract servicer, document custodian, funds custodian, or other person, has executed a written agreement with the issuer to permit Ginnie Mae access to documents as provided above. "Mortgage files and related documentation" includes without limitation books, documents, files, papers, and other records and data, including any maintained in any database or in any data processing, storage, or retrieval system.

CHAPTER 14: POOL AND LOAN PACKAGE ADMINISTRATION — GENERAL

14-13: MATURITY OR TERMINATION OF POOL

A pool matures on either the stated maturity date or an earlier date on which all the pooled loans have been paid to a zero balance, either by payment of monthly installments, or by prepayment in full, or by purchase of the loan by the Issuer because of delinquency. The procedures to follow in the case of maturity are discussed in Section 20-2. A pool may be terminated prior to maturity only as provided in Section 20-3.

